

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Pewamo	County Ionia
Fiscal Year End 3/15/06	Opinion Date 4/26/06	Date Audit Report Submitted to State 8/31/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
		Zip 48823	
Authorizing CPA Signature 		Printed Name Steven R. Kirinovic	
		License Number 1101022020	

**Village of Pewamo
Ionia County, Michigan**

FINANCIAL STATEMENTS

March 15, 2006

Village of Pewamo
Ionia County, Michigan

March 15, 2006

VILLAGE COUNCIL AND ADMINISTRATION

Mr. William Thelen	President
Mr. Mike Smith	President Pro-tem
Mr. William Heckman	Trustee
Mr. Mike Miller	Trustee
Mr. Randy Zenk	Trustee
Mrs. Patricia Distel	Trustee
Mrs. Sandy Wolniakowski	Clerk
Mrs. Pamela Stump	Treasurer

Village of Pewamo

TABLE OF CONTENTS

March 15, 2006

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	i
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds Balance Sheet	3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
Statement of Net Assets - Proprietary Funds	7
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	8
Statement of Cash Flows - Proprietary Funds	9
Notes to Financial Statements	10-19
REQUIRED SUPPLEMENTARY INFORMATION	
GENERAL FUND	
Budgetary Comparison Schedule	20-21
MAJOR STREET FUND	
Budgetary Comparison Schedule	22
OTHER SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Nonmajor Governmental Funds	23
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	24

Principals

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Michael T. Gaffney, CPA
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INDEPENDENT AUDITOR'S REPORT

To the Honorable President and
Members of the Village Council
Village of Pewamo
Pewamo, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Pewamo, Michigan as of and for the year ended March 15, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Pewamo's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Pewamo, Michigan as of March 15, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Village has not presented a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that the MD&A is necessary to supplement, although not required to be part of the basic financial statements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 26, 2006

BASIC FINANCIAL STATEMENTS

Village of Pewamo

STATEMENT OF NET ASSETS

March 15, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 160,824	\$ 194,726	\$ 355,550
Investments	48,488	225,553	274,041
Receivables	12,191	18,180	30,371
Due from other governmental units	5,178	-	5,178
Internal balances	15,011	(15,011)	-0-
Total current assets	241,692	423,448	665,140
Noncurrent assets			
Internal balances	(60,000)	60,000	-0-
Capital assets not being depreciated	44,447	-	44,447
Capital assets, net of accumulated depreciation	155,175	1,217,272	1,372,447
Total noncurrent assets	139,622	1,277,272	1,416,894
TOTAL ASSETS	381,314	1,700,720	2,082,034
LIABILITIES			
Accounts payable	5,451	1,271	6,722
Accrued wages	847	-	847
Other accrued liabilities	200	-	200
TOTAL LIABILITIES	6,498	1,271	7,769
NET ASSETS			
Invested in capital assets	199,622	1,217,272	1,416,894
Restricted for streets and highways	99,732	-	99,732
Unrestricted	75,462	482,177	557,639
TOTAL NET ASSETS	\$ 374,816	\$ 1,699,449	\$ 2,074,265

See accompanying notes to financial statements.

Village of Pewamo

STATEMENT OF ACTIVITIES

Year Ended March 15, 2006

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-type Activities	Total
Governmental activities						
General government	\$ 44,421	\$ 32,028	\$ 949	\$ (11,444)	\$ -0-	\$ (11,444)
Public safety	12,529	-	-	(12,529)	-0-	(12,529)
Public works	178,383	-	53,765	(124,618)	-0-	(124,618)
Health and welfare	5,275	4,442	-	(833)	-0-	(833)
Community and economic development	1,225	-	-	(1,225)	-0-	(1,225)
Recreation and cultural	5,761	-	2,656	(3,105)	-0-	(3,105)
Other	12,997	-	-	(12,997)	-0-	(12,997)
Total governmental activities	260,591	36,470	57,370	(166,751)	-0-	(166,751)
Business-type activities						
Sewer	56,624	32,303	-	-0-	(24,321)	(24,321)
Water	42,130	42,036	-	-0-	(94)	(94)
Total business-type activities	98,754	74,339	-0-	-0-	(24,415)	(24,415)
Total	\$ 359,345	\$ 110,809	\$ 57,370	(166,751)	(24,415)	(191,166)
General revenues						
Property taxes				106,490	-	106,490
State shared revenue				55,013	-	55,013
Investment earnings				9,463	5,794	15,257
Miscellaneous				2,910	-	2,910
Total general revenues				173,876	5,794	179,670
Change in net assets						
				7,125	(18,621)	(11,496)
Net assets, beginning of the year						
				367,691	1,718,070	2,085,761
Net assets, end of the year						
				\$ 374,816	\$ 1,699,449	\$ 2,074,265

See accompanying notes to financial statements.

Village of Pewamo

GOVERNMENTAL FUNDS BALANCE SHEET

March 15, 2006

	General	Major Street	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 63,922	\$ 87,371	\$ 9,531	\$ 160,824
Investments	48,488	-	-	48,488
Receivables				
Taxes	8,203	-	-	8,203
Accounts	1,767	2	125	1,894
Interest	2,094	-	-	2,094
Due from other governmental units	-	4,008	1,170	5,178
Due from other funds	17,975	-	9,356	27,331
TOTAL ASSETS	\$ 142,449	\$ 91,381	\$ 20,182	\$ 254,012
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 5,069	\$ 195	\$ 187	\$ 5,451
Accrued wages	847	-	-	847
Other accrued liabilities	200	-	-	200
Due to other funds	1,980	10,159	181	12,320
Advance from other funds	60,000	-	-	60,000
TOTAL LIABILITIES	68,096	10,354	368	78,818
FUND BALANCES				
Unreserved				
Designated for				
Equipment replacement	48,488	-	-	48,488
Undesignated, reported in				
General fund	25,865	-	-	25,865
Special revenue funds	-	81,027	19,814	100,841
TOTAL FUND BALANCES	74,353	81,027	19,814	175,194
TOTAL LIABILITIES AND FUND BALANCES	\$ 142,449	\$ 91,381	\$ 20,182	\$ 254,012

See accompanying notes to financial statements.

Village of Pewamo

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

March 15, 2006

Total fund balance - governmental funds \$ 175,194

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 615,782
Accumulated depreciation is	<u>(416,160)</u>

Capital assets, net	<u>199,622</u>
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Net assets of governmental activities	<u><u>\$ 374,816</u></u>
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See accompanying notes to financial statements.

Village of Pewamo

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended March 15, 2006

	General	Major Street	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 106,675	\$ -	\$ -	\$ 106,675
Intergovernmental	60,139	41,531	12,234	113,904
Charges for services	29,467	-	-	29,467
Interest and rents	15,379	773	129	16,281
Other	1,286	-	103	1,389
TOTAL REVENUES	212,946	42,304	12,466	267,716
EXPENDITURES				
Current				
General government	34,940	-	-	34,940
Public safety	11,129	-	-	11,129
Public works	146,599	8,965	21,185	176,749
Health and welfare	5,275	-	-	5,275
Community and economic development	1,225	-	-	1,225
Recreation and cultural	2,011	-	-	2,011
Other	12,997	-	-	12,997
Capital outlay	42,462	-	-	42,462
TOTAL EXPENDITURES	256,638	8,965	21,185	286,788
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(43,692)	33,339	(8,719)	(19,072)
Fund balances, beginning of year	118,045	47,688	28,533	194,266
Fund balances, end of year	<u>\$ 74,353</u>	<u>\$ 81,027</u>	<u>\$ 19,814</u>	<u>\$ 175,194</u>

See accompanying notes to financial statements.

Village of Pewamo

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended March 15, 2006

Net change in fund balances - total governmental funds \$ (19,072)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 44,085	
Depreciation expense	<u>(17,888)</u>	
Excess of depreciation expense over capital outlay		<u>26,197</u>

Change in net assets of governmental activities \$ 7,125

See accompanying notes to financial statements.

Village of Pewamo

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

March 15, 2006

	Business-type Activities		
	Sewer System	Water System	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 170,515	\$ 24,211	\$ 194,726
Investments	207,553	18,000	225,553
Accounts receivable	7,260	10,920	18,180
Due from other funds	990	990	1,980
Total current assets	386,318	54,121	440,439
Noncurrent assets			
Advance to other funds	56,000	4,000	60,000
Capital assets, net	940,280	276,992	1,217,272
Total noncurrent assets	996,280	280,992	1,277,272
TOTAL ASSETS	1,382,598	335,113	1,717,711
LIABILITIES			
Current liabilities			
Accounts payable	285	986	1,271
Due to other funds	391	16,600	16,991
TOTAL LIABILITIES	676	17,586	18,262
NET ASSETS			
Invested in capital assets	940,280	276,992	1,217,272
Unrestricted	441,642	40,535	482,177
TOTAL NET ASSETS	\$ 1,381,922	\$ 317,527	\$ 1,699,449

See accompanying notes to financial statements.

Village of Pewamo

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS

Year Ended March 15, 2006

	Business-type Activities		
	Sewer System	Water System	Total
OPERATING REVENUES			
Charges for services	\$ 32,303	\$ 42,036	\$ 74,339
OPERATING EXPENSES			
Labor charges	8,700	8,700	17,400
Contractual services	5,470	6,488	11,958
Utilities	1,361	3,347	4,708
Repairs and maintenance	-	1,844	1,844
Equipment rental charges	1,074	1,006	2,080
Water/Sewer sample testing	-	911	911
Other	263	256	519
Depreciation	39,756	19,578	59,334
TOTAL OPERATING EXPENSES	56,624	42,130	98,754
OPERATING (LOSS)	(24,321)	(94)	(24,415)
NONOPERATING REVENUES			
Interest revenue	5,234	560	5,794
CHANGE IN NET ASSETS	(19,087)	466	(18,621)
Net assets, beginning of year	1,401,009	317,061	1,718,070
Net assets, end of year	<u>\$ 1,381,922</u>	<u>\$ 317,527</u>	<u>\$ 1,699,449</u>

See accompanying notes to financial statements.

Village of Pewamo

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended March 15, 2006

	Business-type Activities		
	Sewer System	Water System	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ (7,600)	\$ 40,746	\$ 33,146
Cash paid for labor charges	(9,445)	(7,710)	(17,155)
Cash paid to suppliers	(8,168)	(13,916)	(22,084)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(25,213)	19,120	(6,093)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investments	(207,553)	-	(207,553)
Maturities of investments	206,630	-	206,630
Interest revenue	5,234	560	5,794
NET CASH PROVIDED BY INVESTING ACTIVITIES	4,311	560	4,871
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(20,902)	19,680	(1,222)
Cash and cash equivalents, beginning of year	191,417	4,531	195,948
Cash and cash equivalents, end of year	<u>\$ 170,515</u>	<u>\$ 24,211</u>	<u>\$ 194,726</u>
Reconciliation of operating (loss) to net cash provided by operating activities			
Operating (loss)	\$ (24,321)	\$ (94)	\$ (24,415)
Adjustments to reconcile operating (loss) to net cash provided by operating activities			
Depreciation	39,756	19,578	59,334
Decrease in interest receivable	217	-	217
(Increase) in accounts receivable	(120)	(300)	(420)
(Increase) in due from other funds	(990)	(990)	(1,980)
(Decrease) in accounts payable	(745)	(64)	(809)
Increase (decrease) in due to other funds	(39,010)	990	(38,020)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (25,213)</u>	<u>\$ 19,120</u>	<u>\$ (6,093)</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

March 15, 2006

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Pewamo is located in Ionia County, Michigan and has a population of approximately 520. The Village of Pewamo operates with a Village President/Council form of government and provides services to its residents in many areas including general government, law enforcement, highways and streets, human services, and utilities services.

The Village Council is made up of the Village President, President Pro-tem, Clerk, Treasurer, and four (4) trustees who are selected at large for overlapping four-year terms.

The financial statements of the Village have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Village governments. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Village's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*; these financial statements present all financial activities of the Village of Pewamo (primary government). The Village has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the basic financial statements of the Village of Pewamo contain all the funds controlled by the Village Council.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the government as a whole. For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

NOTES TO FINANCIAL STATEMENTS

March 15, 2006

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS

The fund financial statements present the Village's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the Village are:

- a. The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Major Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's major streets.
- c. The Sewer System Fund is used to account for the operations required to provide sewer services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- d. The Water System Fund is used to account for the operations required to provide water services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

3. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

Village of Pewamo

NOTES TO FINANCIAL STATEMENTS

March 15, 2006

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Accounting - continued

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

5. Budgets and Budgetary Accounting

The General and Special Revenue Funds' budgets shown in the financial statements were prepared on a basis consistent with the modified accrual basis used to reflect actual results. The Village employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. Prior to March 16, the Village Council prepares the proposed operating budgets for the fiscal year commencing March 16. The operating budget includes proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to March 16, the budgets are legally adopted with passage by Council vote.
- d. The budgets are legally adopted at the activity level; however, they are maintained at the account level for control purposes.
- e. After the budgets are adopted, all transfers of budgeted amounts between accounts within a fund or activity or any revisions that alter the total expenditures of a fund or activity must be approved by the Village Council.
- f. The Village does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at March 15, 2006 are not carried forward to the following fiscal year.
- g. Budgeted amounts are reported as originally adopted by the Village Council. The individual budgets were appropriately approved by the Village Council in accordance with required procedures.

Village of Pewamo

NOTES TO FINANCIAL STATEMENTS

March 15, 2006

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Cash, Cash Equivalents, and Investments

Cash equivalents are temporary investments that consist of various money market checking accounts, certificates of deposit with an original maturity of 90 days or less, and mutual funds. The cash and cash equivalents are recorded at market value.

Investments include certificates of deposit with an original maturity of greater than 90 days from the date of purchase. All investments are stated market value.

7. Property Tax

The Village of Pewamo bills and collects its own property taxes. The Village's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied by the Village of Pewamo on July 1 and are payable without penalty through September 1. All real property taxes not paid to the Village by September 15 are turned over to the Ionia County Treasurer for collection. The Ionia County Treasurer remits payments to the Village on any delinquent real property taxes. Delinquent personal property taxes are retained by the Village for subsequent collection. Collections and remittances of all taxes are accounted for in the General Fund. Village property tax revenues are recognized as revenues in the fiscal year levied.

The Village is permitted to levy taxes up to 15 mills (\$15 per \$1,000 of assessed valuation) for general governmental services. For the year ended March 15, 2006, the Village levied 12 mills for general governmental services. The total taxable value for the 2005 levy for property within the Village was \$8,885,340.

8. Interfund Transactions

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services and construct assets. The accompanying financial statements generally reflect such transactions as operating transfers.

The General Fund records charges for administrative services and equipment rental to various Village departments and funds as revenue. All Village funds record these payments as operating expenditures/expenses.

9. Advances to Other Funds

Long-term advances from some funds to other funds are made to finance new construction.

10. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

Village of Pewamo

NOTES TO FINANCIAL STATEMENTS

March 15, 2006

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Capital Assets - continued

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Structures and improvements	20 - 40 years
Machinery, furniture, and equipment	5 - 30 years
Vehicles	5 years

11. Comparative Data

Comparative data has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Village is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, or a State or Federally chartered savings and loan association, savings, bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Village of Pewamo

NOTES TO FINANCIAL STATEMENTS

March 15, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of March 15, 2006, the carrying amount of the Village's deposits was \$629,591 and the bank balance was \$652,893, of which \$301,109 was covered by federal depository insurance. The remaining balance of \$351,784 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Village held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's).

Interest rate risk

The Village has not adopted a policy that indicates how the Village will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Concentration of credit risk

The Village has not adopted a policy that indicates how the Village will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer.

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details interfund receivables and payables at March 15, 2006:

Due to General Fund from:	
Major Street Fund	\$ 803
Water System Fund	16,600
Sewer System Fund	391
Nonmajor governmental funds	<u>181</u>
	<u>\$ 17,975</u>
Due to nonmajor governmental funds from:	
Major Street Fund	<u>\$ 9,356</u>
Due to Sewer System Fund from:	
General Fund	<u>\$ 990</u>
Due to Water System Fund from:	
General Fund	<u>\$ 990</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for activities that have not cleared as of the balance sheet date.

Village of Pewamo

NOTES TO FINANCIAL STATEMENTS

March 15, 2006

NOTE D: ADVANCES RECEIVABLE AND PAYABLE

The following schedule details advances receivable and payable between the funds at March 15, 2006:

Advance to General Fund from:	
Sewer system	\$ 56,000
Water system	<u>4,000</u>
	<u>\$ 60,000</u>

NOTE E: CAPITAL ASSETS

Capital asset activity for the year ended March 15, 2006 was as follows:

	Balance Mar. 16, 2005	Additions	Deletions	Balance Mar. 15, 2006
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 44,447	\$ -	\$ -	\$ 44,447
Capital assets being depreciated				
Land improvements	229,500	-	-	229,500
Buildings and improvements	104,250	25,429	-	129,679
Vehicles and equipment	<u>193,500</u>	<u>18,656</u>	<u>-</u>	<u>212,156</u>
Subtotal	527,250	44,085	-0-	571,335
Less accumulated depreciation for:				
Land improvements	(180,750)	(3,750)	-	(184,500)
Buildings and improvements	(71,208)	(3,034)	-	(74,242)
Vehicles and equipment	<u>(146,314)</u>	<u>(11,104)</u>	<u>-</u>	<u>(157,418)</u>
Subtotal	<u>(398,272)</u>	<u>(17,888)</u>	<u>-0-</u>	<u>(416,160)</u>
Net capital assets being depreciated	<u>128,978</u>	<u>26,197</u>	<u>-0-</u>	<u>155,175</u>
Capital assets, net	<u>\$ 173,425</u>	<u>\$ 26,197</u>	<u>\$ -0-</u>	<u>\$ 199,622</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 11,104
Public safety	1,400
Public works	1,634
Recreation and cultural	<u>3,750</u>
Total	<u>\$ 17,888</u>

Village of Pewamo

NOTES TO FINANCIAL STATEMENTS

March 15, 2006

NOTE E: CAPITAL ASSETS - CONTINUED

	Balance Mar. 16, 2005	Additions	Deletions	Balance Mar. 15, 2006
Business-type activities				
Utility plant, wells, and mains - water	\$ 502,448	\$ -	\$ -	\$ 502,448
Sewer system	1,640,587	-	-	1,640,587
Equipment - sewer	<u>59,287</u>	<u>-</u>	<u>-</u>	<u>59,287</u>
Subtotal	2,202,322	-0-	-0-	2,202,322
Less accumulated depreciation				
Utility plant, wells, and mains - water	(205,878)	(19,578)	-	(225,456)
Sewer system	(691,798)	(32,812)	-	(724,610)
Equipment - sewer	<u>(28,040)</u>	<u>(6,944)</u>	<u>-</u>	<u>(34,984)</u>
Subtotal	<u>(925,716)</u>	<u>(59,334)</u>	<u>-0-</u>	<u>(985,050)</u>
Capital assets, net	<u>\$ 1,276,606</u>	<u>\$ (59,334)</u>	<u>\$ -0-</u>	<u>\$ 1,217,272</u>

NOTE F: RISK MANAGEMENT

The Village participates in a pool, the Michigan Municipal Liability and Property Pool, with other municipalities for various risks of loss including employer's liability, errors and omissions, and property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The Village has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

The Village also participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The Village has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

NOTE G: RETIREMENT PLAN

Plan Description

The Village participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible (i.e., full-time) employees of the Village. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Village Council. The plan requires a 1.7% contribution from the employees, and the Village contributes the remaining amounts necessary to fund the system.

Village of Pewamo

NOTES TO FINANCIAL STATEMENTS

March 15, 2006

NOTE G: RETIREMENT PLAN - CONTINUED

Annual Pension Cost

For year ended March 15, 2006 the Village's annual pension cost of \$5,957 for the plan was equal to the Village's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 5.0 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is ten (10) years.

Three (3) year trend information

	Year Ended December 31,		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Actuarial value of assets	\$ 28,348	\$ 37,538	\$ 48,387
Actuarial accrued liability (AAL) (entry age)	59,498	71,115	92,957
Unfunded (overfunded) AAL	31,150	33,577	44,570
Funded ratio	48 %	53 %	52 %
Covered payroll	41,422	62,651	69,428
UAAL as a percentage of covered payroll	75 %	54 %	64 %
Annual pension cost	3,223	6,698	5,957
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

NOTE H: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the combined financial statements, the Village's budgeted expenditures in the General and Special Revenue Funds have been shown at the functional classification level. The approved budgets of the Village have been adopted at the activity level.

Village of Pewamo

NOTES TO FINANCIAL STATEMENTS

March 15, 2006

NOTE H: EXCESS OF EXPENDITURES OVER APPROPRIATIONS - CONTINUED

During the year ended March 15, 2006, the Village incurred expenditures in the General and Special Revenue Funds in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Financial administration	\$ 26,600	\$ 28,470	\$ 1,870
Public Safety			
Fire Department	9,000	11,129	2,129
Public Works			
Department of public works	109,800	121,614	11,814
Storm drain construction	10,000	15,376	5,376
Street lighting	8,500	9,609	1,109
Health and Welfare			
Ambulance	4,000	5,275	1,275
Community and Economic Development			
Zoning Board	700	1,225	525
Recreation and Cultural			
Parks and recreation	1,500	2,011	511
Other			
Fringe benefits	12,000	12,997	997

NOTE I: FUND EQUITY DESIGNATIONS

Designated fund balance indicates that portion of the fund balance which the Village has set aside for specific purposes.

The following is the fund balance designation as of March 15, 2006:

General Fund	
Designated for equipment replacement	<u>\$ 48,488</u>

NOTE J: RESTRICTED NET ASSETS

Restrictions on net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source preclude their use for unrestricted purposes. The following is the various net asset restrictions as of March 15, 2006:

PRIMARY GOVERNMENT
 Governmental activities
 Restricted for
 Public works
 Streets and highways

\$ 99,732

REQUIRED SUPPLEMENTARY INFORMATION

Village of Pewamo
General Fund
BUDGETARY COMPARISON SCHEDULE
Year Ended March 15, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
REVENUES				
Taxes				
General property tax	\$ 140,000	\$ 140,000	\$ 106,675	\$ (33,325)
Intergovernmental				
State shared revenue				
Revenue sharing funds	55,000	55,000	55,013	13
Liquor license fees	1,000	1,000	949	(51)
Abandoned well program	-	-	1,521	1,521
Recreation grant	-	-	2,656	2,656
Total intergovernmental	56,000	56,000	60,139	4,139
Charges for services				
Ambulance runs	6,000	6,000	4,442	(1,558)
Grave openings	150	150	-	(150)
Zoning permits	100	100	125	25
Administrative charges	24,900	24,900	24,900	-0-
Total charges for services	31,150	31,150	29,467	(1,683)
Interest and rents				
Interest	1,100	1,100	8,376	7,276
Rent - equipment	16,500	16,500	7,003	(9,497)
Total interest and rents	17,600	17,600	15,379	(2,221)
Other revenue				
Cable TV franchise fees	1,400	1,400	1,183	(217)
Miscellaneous	100	100	103	3
Total other revenue	1,500	1,500	1,286	(214)
TOTAL REVENUES	246,250	246,250	212,946	(33,304)
EXPENDITURES				
General government				
Legislative	7,800	7,800	4,000	3,800
Executive	2,480	2,480	2,470	10
Financial administration	26,600	26,600	28,470	(1,870)
Total general government	36,880	36,880	34,940	1,940
Public safety				
Fire department	9,000	9,000	11,129	(2,129)

Village of Pewamo

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 15, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Public works				
Department of public works	\$ 109,800	\$ 109,800	\$ 121,614	\$ (11,814)
Sidewalk construction	1,000	1,000	-	1,000
Storm drain construction	10,000	10,000	15,376	(5,376)
Street lighting	8,500	8,500	9,609	(1,109)
Total public works	129,300	129,300	146,599	(17,299)
Health and welfare				
Ambulance	4,000	4,000	5,275	(1,275)
Community and economic development				
Zoning board	700	700	1,225	(525)
Recreation and cultural				
Parks and recreation	1,500	1,500	2,011	(511)
Other				
Fringe benefits	12,000	12,000	12,997	(997)
Capital outlay	43,000	43,000	42,462	538
TOTAL EXPENDITURES	236,380	236,380	256,638	(20,258)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	9,870	9,870	(43,692)	(53,562)
Fund balance, beginning of year	118,045	118,045	118,045	-0-
Fund balance, end of year	\$ 127,915	\$ 127,915	\$ 74,353	\$ (53,562)

Village of Pewamo

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 15, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental - State	\$ 40,000	\$ 40,000	\$ 41,531	\$ 1,531
Interest	100	100	773	673
TOTAL REVENUES	40,100	40,100	42,304	2,204
EXPENDITURES				
Public works				
Street maintenance				
Salaries and wages	4,000	4,000	4,000	-0-
Equipment rental	5,000	5,000	1,636	3,364
Repairs and maintenance	1,300	1,300	1,717	(417)
Total street maintenance	10,300	10,300	7,353	2,947
Administration				
Contractual services	3,000	3,000	1,270	1,730
Traffic service maintenance				
Utilities	100	100	-	100
Winter maintenance				
Supplies	300	300	342	(42)
TOTAL EXPENDITURES	13,700	13,700	8,965	4,735
EXCESS OF REVENUES OVER EXPENDITURES	26,400	26,400	33,339	6,939
OTHER FINANCING (USES)				
Operating transfers out	(10,000)	(10,000)	-	10,000
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	16,400	16,400	33,339	16,939
Fund balance, beginning of year	47,688	47,688	47,688	-0-
Fund balance, end of year	\$ 64,088	\$ 64,088	\$ 81,027	\$ 16,939

OTHER SUPPLEMENTARY INFORMATION

Village of Pewamo
Nonmajor Governmental Funds
COMBINING BALANCE SHEET
March 15, 2006

	Special Revenue		Total Nonmajor Governmental Funds
	Local Street	Softball	
ASSETS			
Cash and cash equivalents	\$ 8,422	\$ 1,109	\$ 9,531
Accounts receivable	125	-	125
Due from other governmental untis	1,170	-	1,170
Due from other funds	9,356	-	9,356
TOTAL ASSETS	<u>\$ 19,073</u>	<u>\$ 1,109</u>	<u>\$ 20,182</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 187	\$ -	\$ 187
Due to other funds	181	-	181
TOTAL LIABILITIES	368	-0-	368
Fund balances			
Unreserved			
Undesignated, reported in			
Special revenue funds	18,705	1,109	19,814
TOTAL FUND BALANCES	<u>18,705</u>	<u>1,109</u>	<u>19,814</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 19,073</u>	<u>\$ 1,109</u>	<u>\$ 20,182</u>

Village of Pewamo

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended March 15, 2006

	Special Revenue		Total Nonmajor Governmental Funds
	Local Street	Softball	
REVENUES			
Intergovernmental	\$ 12,234	\$ -	\$ 12,234
Interest	128	1	129
Other	-	103	103
TOTAL REVENUES	12,362	104	12,466
EXPENDITURES			
Public works	21,185	-	21,185
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(8,823)	104	(8,719)
Fund balances, beginning of year	27,528	1,005	28,533
Fund balances, end of year	\$ 18,705	\$ 1,109	\$ 19,814

Principals

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Michael T. Gaffney, CPA
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MANAGEMENT LETTER

To the Honorable President and
Members of the Village Council
Village of Pewamo
Pewamo, Michigan

As you know, we have recently completed our audit of the records of the Village of Pewamo, Michigan as of and for the year ended March 15, 2006. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management. These weaknesses are not considered reportable conditions in relation to the basic financial statements of the Village of Pewamo, Michigan but may be areas of possible improvement.

1. The journal entry process should be evaluated and modified.

During our analysis of the journal entry process it was determined that there are no formal procedures in place for the processing of journal entries. In addition, no supporting documentation was available to evidence the reason and/or authorization for the journal entries. This issue was noted and reported in our audit comments last year.

We suggest the Village implement procedures to provide adequate documentation on who proposes, approves, and posts entries into the system. All journal entries should also be supported by detailed documentation to justify all postings.

2. The Village should retain all supporting documentation in a central location.

During our testing of receipts and disbursements, it was noted that documentation for the sample of documents tested was missing for all receipts and one (1) disbursement. Through conversations with management, it was also noted that documents pertaining to Village business are commonly processed in the homes of management personnel. Frequently, these documents are not returned to the Village office in a timely manner, making them unavailable for audit.

We suggest the Village retain all supporting documentation related to receipts and disbursements in a central location in order to facilitate the audit process and allow easier access to the information for management processes.

3. The Village should review various areas of operation and consider additional segregation of duties.

During our consideration and assessment of fraud risk, we noted that the Village may not have sufficient segregation of duties in its accounting structure. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, utility billing, etc.). This issue was noted and reported in our audit comments last year.

While this is a common occurrence in small organizations due to the limited number of employees, the Village Council should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

We suggest that the Village review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we suggest the Village Council provide a greater review and supervision of employee functions and procedures.

4. The Village should review the current rate structure or other financial aspects of the Sewer Fund to reduce or eliminate future losses.

During our review of the Sewer Fund results of operations, it was noted the fund again had a loss this year. This fund has had a loss in several of the previous years. This issue was noted and reported in our audit comments last year.

The Enterprise Funds' intent is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

We suggest the Village review the sewer rates being charged to determine if they are sufficient to support the operations of this fund. The Village may need to evaluate rates or examine the possibilities of reducing expenses in this fund.

5. Budgets for all funds should be monitored and amended when necessary.

As noted in the annual financial statements, some of the budgeted activities of the Village exceeded the amounts appropriated. The variances noted were in the General Fund. This issue was noted and reported in our audit comment last year.

The Michigan Public Act 621 of 1978, as amended, provides that the Village shall not incur expenditures in excess of the amounts appropriated. The Village is also required to adopt budgets for the General and all Special Revenue Funds.

We suggest the Village adopt budgets for all applicable funds and monitor expenditures against the adopted budget on a periodic basis, preferably monthly. Appropriate budget amendments should be made as needed.

6. The Village should establish policies to ensure timely deposits of receipts.

During our audit procedures, it was noted that funds received for property taxes and utilities were not always deposited at the bank in a timely manner.

We suggest the Village establish a schedule for bank deposits to be made at least weekly. Timely deposits will ensure that the Village is receiving all the interest associated with the timely depositing of revenues, it assists with cash flows, and that the revenues are recognized in the period to which they pertain.

7. The Village should document authorized rates of pay in writing.

During our testing of the payroll process, we noted that authorized rates of pay are not formally documented in writing and retained for audit purposes.

We suggest the Village document employees' rates of pay, as authorized by the Village Council, in writing, in a personnel file and update the file as necessary.

8. The Council should amend the Village's investment policy to address the disclosure requirements of GASB Statement No. 40.

During the course of our audit and through discussions with administration, it was noted that the Village has not amended their investment policy to address various areas of risk as described by GASB Statement No. 40. Deposit and investment resources often represent significant assets of the Village's funds. These resources are necessary for the delivery of the Village's services programs. Effective for the year ended March 15, 2006, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Village's ability to provide services and meet its obligations as they become due.

We suggest the Council review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, if applicable. Such policies are required to be disclosed in the notes to the Village's financial statements by GASB Statement No. 40.

9. The Village should report infrastructure assets in the audited financial statements.

Currently the Village does not report the value of the infrastructure assets (roads, bridges, etc.) owned by the Village at March 15, 2006. One of the recommendations, but not requirements due to the size of the Village, of GASB #34 was that municipalities should retroactively report all significant infrastructure additions/improvements back to 1980.

While it is not mandated that the Village retroactively include these amounts in the audited financial statements, we suggest the Village do so in order to get a complete and accurate valuation of all infrastructure assets owned by the Village at year-end. The value can be actual cost or estimated actual costs established in the year of the addition to or improvement in the infrastructure assets.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the general purpose financial statements, and this report does not affect our report on the general purpose financial statements dated April 26, 2006.

This report is intended solely for the information of management and the President and Members of the Village Council of the Village of Pewamo and is not intended to be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation to us during our audit. We are available to discuss any issues with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 26, 2006